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Discretionary Revenue and Ownership Structure: the Opportunistic View of Management

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ABSTRACT

This study aims to examine whether the opportunistic behavior of management is influenced by firm characteristics and ownership structure. Management opportunism is measured by the discretionary revenue model from Stuben (2010), whilst the characteristics of companies that tested its impact on opportunistic management are auditor independence, firm size (size), leverage, growthownership structure is divided into two, institutional ownership and foreign ownership.The sample consists of 370 samples of the company during 2015-2017. Results show that the opportunistic management is significantly influenced by firm size and leverage. The larger firm has lower intention to perform management opportunism. Firm having higher debt level has larger motivation to engage in earnings management. Other results show that of the three ownership structure variables, only institutional ownership is proven to suppress opportunistic management attitude. Other variables, foreign ownership, auditor independence, and growth do not show a significant effect on management opportunistic attitude.

Keywords :Institutional Ownership, Foreign Ownership, Auditor Independence, Size, Leverage, Growth, Oportunistic Management.

1.1 Research Background

The phenomenon of engineering on accounting profit is a topic that is still debated and interesting to study. Accounting profit which is one of the main indicators of corporate financial performance is important information that gives influence to the decision of the users.Chung et al (2002) state that research indicates that managers use discretion in reporting corporate profits (e.g., by choosing accounting practices, interpreting generally accepted accounting principles, and using discretionary accruals). Because it is a leading indicator of management performance, profit information often provides incentives to management to do opportunistic to maximize its utility. The opportunistic action is done by choosing certain accounting policies, so that profits can be regulated, increased or decreased as they wish, known as earnings management. Managers always aim to secure all the funds needed to keep the business running so that no external party can interfere, and at the same time managers aim to gain whatever kind of benefit they can from the business (Kim and Yoon 2009, Sara et al, 2016). Since the accounting earnings are of great

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importance to the stakeholders given the fact that it's the end product of the accounting process and based on the many problems and acts by the managers to try practicing earnings management, stakeholders doubt the credibility and reliability of the financial reports (Uwuigbe et al., 2015, Sara et al., 2016, Istianingsih et al., 2020).

Jensen and Meckling (1976) argue that the separation of ownership and managerial functions leads to a conflict of interest between the agent and the principal. This conflict is known as the agency conflict, which arises as a result of the desire of the management (agent) to perform actions in accordance with the interests that can sacrifice the interests of shareholders (principal) to obtain return and long-term value of the company. Jensen and Meckling (1976) argue that the ownership structure is a mechanism for reducing agency problems arising between agents and principals. Ownership structure is expected to bridge the interests of each party, both management as an agent and the owner of capital as a principal. In this research, two proprietary structures are institutional ownership and foreign ownership.

Investment institutions with substantial shareholdings in a firm have the resources and incentives to monitor and influence management decisions. Whether the institutions actually monitor and exert pressure on managers is an empirical question. Previous studies have reported mixed results (Chung et al, 2002). Ownership by institutional investors such as insurance companies, banks, investment companies and ownership by other institutions is equally important, as it will encourage more optimal supervision of management performance (Istianingsih, 2015). Institutional investors are considered sophisticated investors who are not easily fooled by the actions of managers (Siregar and Utama, 2006).

Another form of ownership structure is foreign ownership.Foreign investors are usually perceived to be more knowledgeable and sophisticated than domestic investors in terms of investment experience and the ability to collect, process, and analyse value-relevant information (Gul et al., 2010). In recent years, foreign ownership in Indonesia has experienced a very rapid increase. Companies that are mostly owned by foreigners are usually more likely to encounter information asymmetry problems due to geographic and language barriers. This causes companies with more dominant foreign ownership to face political risks,

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asymmetric information and legal protection (La Porta et al., 1999). Therefore, this study would like to see the effect of foreign ownership on earnings management practices that are opportunistic.

The rise of earnings management comes from the application of the accrual base rather than cash flow that makes it easy for the management to manipulate the financial information as accruals are less observable (Chen et al., 2014; Sara et al., 2016).If management does earnings management in order to maximize their personal interests or so-called opportunistic then it is feared that earnings information can lead readers of financial statements resulting in wrong decision. This opportunistic attitude of management can also erode public confidence in financial statements and hinder the competence of capital flows in the capital market.

Gul et al. (2005) show that one of the indicators that can detect earnings management is audit quality because it shows how the competence and independence of auditors in detecting and reporting the action of earnings management conducted by managers. The auditor as an independent party plays a role to examine the reported financial report management so as to reduce earnings management and improve the credibility of the company's financial statements. The Indonesian Institute of Accountants 2011 states clearlythat In all matters relating to engagement, independence in the mental attitude must be maintained by an auditor. This standard requires the auditor to be independent, meaning it is not easily influenced, as the auditor performs his work for the public good. Auditor independence can be seen from the length of assignment of auditors in the same company.

Several previous studies have tried to evaluate the variables that are considered to be used to estimate the opportunistic actions of management. Institutional ownership, foreign ownership, and auditor independenceare some variables that have been studied. However, there has been no consistent result of the influence of these variables in predicting management opportunistic practices as measured by the discretionary revenue model from Stuben (2010). The discretionary accruals are the proportion of accruals that management chooses to report (Gul et al., 2003). Stubben (2010) found out that the conditional revenue model is more effective at detecting earnings management and obtaining evidence that revenue models have lower biases, more specific, and more accurate than commonly used accrual models. In addition, the

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conditional revenue model is also a measurement model that is classified as new and not widely used in previous research as a measure of earnings management. These findings support the authors to conduct research using discretionary revenue as a proxy of the opportunistic attitude of management.

Based on the aforementioned background, this study attempts to examine whether institutional ownership, foreign ownership, and auditor independen affect the extent of earnings management (management opportunitism). Using a sample of 370 firms listed on ndonesian stock exchange, the study finds support that only institutional ownership is negatively relted to ernings management. This means that the presence of instituional ownership could reduce the intention of management to manage the reported earnings.

The paper is organisez as follows. Next section provides the review of literature and the development of hypotheses. Section three presents the research method. This is followed by the results and discussion. Final section conludes the paper and provide suggestions for future study.

2. Literature Rivew and Hypothesis Development

2.1 *Agency Theory*

Based on agency theory, the firm is a legal fiction that plays an important role in the process of directing different individual goals to the balance within the framework of contractual relations (Jensen and Meckling, 1976). Jensen and Meckling (1976) stated that agency relationships are a contract between manager (agent) and investor (principal). The emergence of opportunistic management can be explained by agency theory with some basic assumptions that construct this theory, among others:

There is the possibility of conflict in the relationship between the principal and the agency (agency conflict), in which the conflict arises as a result of the agent's desire to act in accordance with his or her own interests which can sacrifice the interests of the principal to obtain the return and the long-term value of the company. Another basic assumption that builds agency theory is the agency problem that arises as a result of the gap between the interests of the shareholders as the owner and management as the manager. The owner has an

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interest in getting invested funds to get the maximum return, while managers are interested in obtaining incentives on managing the owner's funds.

Agency theory arises in relation to the phenomenon of separation of company ownership by management. The owner as a corporate capital supplier delegates authority over the management of the company to the professional manager. As a result, the authority to use the company's resources is entirely in the hands of executives. Shareholders expect management to act professionally in managing the company by determining decisions that should be based on the interests of shareholders and existing resources used solely for the purpose of improving the performance and value of the company (Jensen and Meckling, 1976).

However, in reality managers take decisions not solely for the benefit of the company, but also for the benefit of the executive managers. In other words, management has interests that are different from those of the owner. In addition, managers are also more aware of internal information and prospects both long-term and short-term compared to owners (shareholders). This imbalance of mastery of information can lead to the emergence of a condition known as information asymmetry (Jensen and Meckling, 1976).

Jensen and Meckling (1976) say that the agency relationship makes agents and principals do not always act for the same purpose. This is in line with the assumption of human nature proposed by Eisenhardt (1989), namely humans are generally self-interested (self-interest), humans have a limited mindset about future (bounded rationality) perception, and people always avoid risk (risk averse).

Based on the assumption that the manager will act opportunistic, that is doing actions that lend themselves (self-interested behavior). According to Scott (2015) earnings management can be seen from the perspective of financial reporting and perspective of contracting. From a financial reporting perspective, managers use earnings management to meet earnings forecasts, so that their reputations remain favorable and negative stock price reactions are likely to thwart investors' expectations inevitably. In addition, managers can also record excessive writeoffs or emphasize the construction of income other than net income, such as "pro-forma" income.

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From a contracting perspective, earnings management can be used to protect a company from unexpected events, ie if the contract is rigid and incomplete. Such earnings management actions can reduce the usefulness of financial statements for investors. Profit management also affects the motivation of managers in mobilizing their business, since managers can use earnings management to smooth their compensation over time, thereby reducing the risk of compensation (Scott, 2015).

There are two behaviors that underlie managers make earnings management (Scott, 2015). First is opportunistic behavior of whichmanagers maximize their utility in the face of contracts of compensation, debt and political costs.Second is efficient contracting of whichmanagers increase informed earnings in communicating private information. Based on this behavior, earnings management provides flexibility for managers to protect themselves and companies in anticipating unforeseen events for the benefit of the parties involved in the contract. In preparing a compensation contract, the company will anticipate the manager's incentive to manage earnings through the amount of compensation offered.

2.2 Factors that encourage opportunistic behavior Management

Watts and Zimmerman (1986) proposed three hypotheses related to earning management action. The first is bonus plan hypothesis. This hypothesis states that corporate managers will be more likely to choose accounting procedures that shift reported earnings from future periods to current periods. This hypothesis seems to make sense because like most people, corporate managers also expect high remuneration. If remuneration depends on bonuses related to reported net income, then managers can increase their current bonus by reporting the highest net income possible. One way is by choosing an accounting policy that can increase reported earnings today.

The second is debt covenant hypothesis. This hypothesis states that the closer a company is to a breach of an accounting-based debt agreement, the more likely it is for a company manager to choose accounting procedures that can shift reported earnings from future periods to current periods. The reason is that an increase in reported net income will reduce the likelihood of a technical default. Most of the debt agreements include terms if the borrower has to fulfill the obligations during the term of the agreement. Therefore, the

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act of breach of agreement becomes an obstacle for management in running the company. To prevent or delay such violations, management implements accounting policies that can increase current income.

The third is political cost hypothesis. This hypothesis states that the greater the political costs faced by firms, the more likely it is for managers to choose accounting procedures that postpone current reported earnings into future periods, thereby reducing reported earnings. In the hypothesis of political costs, firm size is also a consideration. Large companies certainly have a high standard of performance and profit, so the political cost is also very large. Political costs arise due to high corporate profitability can attract the attention of consumers and the media. The bigger a company, the greater the political cost because it gets more attention from governmental institutions than small companies.

2.2 Conditional Revenue Model

The conditional revenue model was introduced by Stubben (2010) on the basis of dissatisfaction with the current commonly used accrual model. This conditional revenue model, focuses on income that has a direct relationship with accounts receivable. Dechow and Schrand (2004) found that over 70 percent of SEC Accounting and Auditing Enforcement Release cases involve misstatements of income. The conditional revenue model from Stubben (2010) uses accrued receivables rather than aggregate accruals as a function of income change. As the main accrual component, accounts receivable have strong empirical relationships and a direct conceptual relationship to income.

It also deals with management policies that can determine or take decisions in lending. When income increases, it can be accompanied by an increase in receivables. The conditional revenue model is based on discretionary revenue which is the difference between actual changes in receivables and prediction changes on receivables based on the model. Unusual, high or low receivables indicate income management (Stubben, 2010).

According to Stubben (2010), premature revenue recognition is the most common form of revenue management. With the recognition of premature income made by the company, will have an impact on the income itself and receivables. By acknowledging and recording future revenues or unrealized, the income

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of the current period is greater than the actual income. As a result, it is as if the performance of the company is better than the real performance.

2.3 Reseach Framework

Information asymmetry between agent and principal can provide an opportunity for managers to perform earnings management. This is because the manager has more information about the condition of the company, so it can take advantage of the advantages of such information for his personal interests. Jensen and Meckling (1976) argue that the ownership structure is a mechanism for reducing agency problems arising between agents and principals. With the ownership structure is expected to bridge the interests of each party, both management as an agent and the owner of capital as a principal. In this research, two proprietary structures are institutional ownership and foreign ownership.

From the standpoint of accounting theory, the opportunist attitude of management is largely determined by the motivation of corporate managers. In institutional ownership there are institutional investors who have the opportunity, resources and ability to exercise oversight of opportunistic management actions (Chung et al., 2002). In addition to institutional ownership, in recent years the amount of foreign ownership in several companies in Indonesia has also increased. Companies that are mostly foreign-owned shares more often face the problem of information asymmetry due to geographic and language barriers. This causes companies with more dominant foreign ownership to face political risks, asymmetric information and legal protection (La Porta et al., 1999).

In addition to ownership structure, this study also sees the influence of auditor independence provided by external auditors can provide restrictions for management in making earnings management. The existence of auditor independence is also indispensable because by being independent, the auditor can provide an actual opinion on the financial statements, so that earnings management practices that occur can be immediately revealed and known by the parties concerned in making decisions (Guna and Herawaty, 2010).

2.4 Hypothesis Development

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2.4.1 Effect of Institutional Ownership on Management Opportunism

Institutional ownership is the share ownership of companies by financial institutions such as insurance companies, banks, pension funds, and investment banking (Siregar dan Utama, 2006). Institutional ownership has the ability to control the management through an effective monitoring process in order to reduce earnings management (Istianingsih Sastrodiharjo, 2015). Percentage of certain shares owned by the institution may affect the process of preparing financial statements that do not rule out the existence of accrualization according to the interests of the management (Boediono, 2005). Corporate supervisory action by an institutional investor can encourage managers to focus more attention on company performance so as to reduce opportunistic or self-serving behavior (Cornett et al., 2008).

Nuraini and Zain (2007) found out that institutional ownership had a negative and significant effect on earnings management. These results are in line with Tarjo (2008) From these explanations it can be concluded that greater institutional ownership is essential to be an effective monitoring tool for companies, so management opportunities to manipulate earnings can be minimized. Based on the framework of previous thought and research, the authors propose the following hypothesis:

H_1: Institutional ownership negatively affects management opportunism

2.4.2 Effect of Foreign Ownership on Management Opportunism

Companies that are mostly owned by foreigners are more likely to encounter information asymmetry problems due to geographic and language barriers (Istianingsih Sastrodiharjo, 2015). In addition, firms with more dominant foreign shareholding face political risks, asymmetric information and legal protection (La Porta et al, 1999). In addition, geographical distances and ignorance of local conditions may make foreign shareholders less influential in management and monitoring (Boardman et al., 1994) in Chin et al. (2009). The existence of limitations in terms of supervision by foreign investors will certainly provide an opportunity for managers to make earnings management. Therefore, with the increase in foreign ownership is expected to better monitor the behavior of corporate management so that it can reduce the practice of earnings

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management that occurred. Based on the framework of previous thought and research, the authors propose the following hypothesis:

H_2: Foreign ownership negatively affects management opportunism

2.4.3 Effect of Auditor Independence on Profit Management

In SPAP (IAI, 2011) the auditor is required to be independent, meaning that it is not easily influenced, as it performs its work for the public good. By being independent, the auditor can give an actual opinion on the financial statements, so that the earnings management practices that occur can be immediately revealed and known by the parties concerned in making decisions. The independence of the auditor in this case is judged by the duration of the assignment of the auditor in the same company. The longer the auditor performs an audit on a company, then the auditor is considered not independent (Guna and Herawaty, 2010). Based on the framework of previous thought and research, the authors propose the following hypothesis:

H_3: Auditor independence negatively affects opportunistic management

3. Research Design

The population in this study are all manufacturing companies listed on the Indonesia Stock Exchange in 2015-2017. Determination of company sample is done by purposive judgment sampling method, so that obtained 370 samples to be observed related to earnings management which done. In this study, the selection of research sample members is based on the following criteria:

1. The selected companies are manufacturing companies listed on the Stock Exchange during the period 2014-2017.
2. The Company has an audited annual report complete with notes to the financial statements for the period ended 31 December 2015-2017.
3. The Company has complete financial report data for period 2015 - 2017 related to the requirement in Stubben's conditional revenue model (discretionary revenue) (2010).
4. The Company presents the financial statements stated in Rupiah (Rp).

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5. The Company has managerial ownership, institutional ownership, and foreign ownership during the period 2014-2017.

This study aims to explain how the influence of institutional ownership structure, foreign ownership, and independence of auditors to management opportunistic actions on firms in manufacturing industries listed on the BEI during the period 2015-2017. In this study there are two models that will be analyzed by using multiple regression analysis (multiple regression analysis). The first model is to analyze the effect of income change, firm size, company age, revenue growth, and gross margin on changes in accounts receivable owned by the company as the amount of discretionary revenue that is the proxy of opportunistic management. The second model is to analyze the effect of institutional ownership, foreign ownership, auditor independence, firm size, leverage, and growth to earnings management.

The definition and measurement of variables are elaborated in the following paragraphs. The main variable of concern in this research is the opportunistic behavior of management which is the management interference in the preparation and reporting of the company's finance to achieve certain profit level which in this research earnings management is measured by discretionary revenue.

Stubben (2010) states that discretionary revenue is the difference between actual changes in receivables and predicted changes in accounts receivable by model. Abnormal high or low receivables indicate the existence of revenue management. To benchmark existing models, Stubben (2010) compares the capabilities of commonly used revenue models and accrual models (Jones, 1991; Dechow et al., 1995; Dechow and Dichev, 2002; Kothari et al., 2005) to detect a combination of revenue and cost management.

Further, Stuben (2010: 3) states that the use of discretionary revenue as a proxy of earnings management calculated by acceptance approach can measure earnings management better than using accrual approach. The results show that discretionary revenue measures result in less bias and error than the accrual model, where discretionary revenue can detect not only management revenue but also earnings management (through income).

Model of Discretionary Revenue:

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$$\Delta AR_{it} = \alpha + \beta_1 \Delta R_{it} + \beta_2 \Delta R_{it} \times SIZE_{it} + \beta_3 \Delta R_{it} \times AGE_{it} + \beta_4 \Delta R_{it} \times AGE_SQ_{it} + \beta_5 \Delta R_{it} \times GRR_P_{it} + \beta_6 \Delta R_{it} \times GRR_N_{it} + \beta_7 \Delta R_{it} \times GRM_{it} + \beta_8 \Delta R_{it} \times GRM_SQ_{it} + e_{it}$$

Where :

Δ	= annual change;
AR	= end of fiscal year accounts receivable;
R	= annual revenues;
SIZE	= natural log of total assets at end of fiscal year;
AGE	= age of firm (years);
GRR_P	= industry-median-adjusted revenue growth (_ 0 if negative);
GRR_N	= industry-median-adjusted revenue growth (_ 0 if positive);
GRM	= industry-median-adjusted gross margin at end of fiscal year;
_SQ	= square of variable; and
ε	= error.

Table 1 presents the summary of the variables used in the study along with their measurement.

Table 1. Measurement of variable used in the study

No	Variable	Measurement
1	Institutional Ownership: the percentage of voting rights owned by the institution.	INST = (Number of shares owned by institutional investors) / (Total share capital of outstanding company)
2	Foreign Ownership: the proportion of ordinary shares of a company owned by individuals, legal entities, government and its parts of foreign status or in the form of foreign business entities	FORGN = (Number of shares owned by foreign investors) / (Total share capital of outstanding company)
3	Auditor Independence: an auditor's attitude that is not easily influenced and impartial to the interests of anyone, be it owner or management company	Number 1 is used to represent companies that use auditors of the sameAuditore in 3 years, which means no independent attitude, zero otherwise
4	Company size: a scale that can be classified by the size of the company	Company Size = LN (Total Assets) (Cornett et al., 2008).
5	Leverage: the ratio between debt and assets that show some parts of the assets used to guarantee debt.	*LEV = (Total Debt) / (Total Assets)* (Healy and Palepu 1985; DeFond and Jiambalvo; 2002).
6	Growth: change in sales from one period to another period	Grow = $(Sales_t - Sales_{t-1})/Sales_{t-1}$ McNichols (2000) and Velury and Jenkins (2006)

The following Regression Model is used to the proposed hypotheses.

$$OPM = \alpha + \beta_1 INST + \beta_2 FOROWN + \beta_3 INDAUD + \beta_4 SIZE + \beta_5 LEV + \beta_6 GROW + e$$

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Where OPM is Oportunism Management, INST is Institutional Ownership, FOROWN is Foreign Ownership, INDAUD is Auditor's Independency, SIZE is Size of Firm, LEV is Leverage, and GROW is Growth.

4. Research Result

During the period 2014-2016 they 528 companies litsed at Indonesian Stock Exchange. The number of manufacturing companies that become constant research observation for four years was 94 companies. The final observation was 370 firm years after eliminating firms with outlier data.

The descriptive statistic data are presented in Tabel 2.

Table 2Descriptive Statistics (N-370)

Variable	Minimum	Maximum	Mean	Std. Deviation
INST	.00000	.87460	.06431	.17597
FOROWN	.00000	.99740	.37552	.32128
INDAUD	.00000	1.00000	.68378	.46563
SIZE	9.26691	19.02102	13.75403	1.47309
LEV	.03955	3.21000	.52901	.44128
GROW	-.78663	3.40749	.09808	.31270
OPORTUNIS	.00043	2.22077	.34428	.38251

Note:
OPORTUNIS: regression result of the dependent variable in model 1. (ii) (iii) INST: percentage of institutional ownership. (iv) FOREIGN: the percentage of foreign ownership. (vi) INDAUD: dummy of auditor independence, 1 if the company continues to use the same Auditor after 3 years and 0 if the company replaces auditor after 3 years. (vii) SIZE: natural logarithm of total assets. (viii) LE: leverage, total debt divided by total assets. (ix) GROW: sales growth, revenue year is now reduced revenue of the year before ago divided by revenue year before t

The institutional ownership variable owned by the sample company has the smallest value 0% and the largest is 87.46%. The average institutional ownership is 6.43%. This means that the average of companies in the study sample has little institutional ownership. The sample companies that have the most institutional ownership are PT Indospring Tbk (INDS), i.e., in 2015 and 2016. The standard deviation of 17.6% indicates that the sample data is not very varied.

In the foreign ownership variable owned by the sample company has the smallest value of 0% and the largest is 99.74%. The average foreign ownership is 37.55%. This means that the average of companies

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in the study sample has a small amount of foreign ownership. The largest sample company with foreign ownership is PT Bentoel International Investama Tbk (RMBA) in 2009. The standard deviation of 32.13% indicates that the sample data is not very varied.

In the independence variable the auditor has a minimum value of 0 and a maximum value of 1. In this variable the value 0 means that the manufacturing company replaces the KAP after three years, while the value of 1 means the company keeps using the same KAP services after three years. The mean value in this auditor independence variable shows the number 0.6837, which means that 68% of firms use different Auditor services after three years, while the remainder (32%) still use the same Auditor services after three years..

All of the independent variables in this study covering institutional ownership, foreign ownership, auditor independence, size, leverage, and growth free from multicolonicity or no correlation among independent variables. In this study the heteroscedasticity test was detected by the Breusch Pagan Godfrey test with the Eviews program. It can be concluded that there is no heteroscedasticity in the regression model, so the regression model is feasible to predict earnings management based on the input of independent variables, INST, FOREIGN, INDAUD, SIZE, LEV, and GROWTH. In addition, the results of Breusch Pagan Godfrey test also show Prob.F of 0.9774, which means insignificant (> 0.05), so it can be concluded that there is no heteroscedasticity. Durbin Watson's statistical test is 1.615, which means <dL = 1.686 indicates that there is an area of positive autocorrelation. Therefore, treatment with software Eviews to be free from autocorrelation problems. The result of treatment is done by adding AR (1) with the assumption that residual or error follow autoregressive. Results after treatment show that Durbin Watson value is 1,911, whose value is> du = 1,852. This means being in an area where there is no autocorrelation problem and has met the autocorrelation test.

In this study, the normality test was detected with non-parametric statistics Kolmogorov-Smirnov Z. The Kolmogorov-Smirnov non-parametric statistical test results showed the significant value of the test is 0.848 indicating that the residuals were normally distributed.

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4.2.3 Hypothesis Test

Table 3 presents the results of hypotheses testing using regression analysis.

Table 3. Results of Regression Analysis

Description	Unstandardized Coefficients		Standardized Coefficients	t-value	Sig. Value
	B	Std. Error			
Constant	0.707	0.219		3.233	0.001
INST	-0.084	0.020	-0,038	-2.698	0.048
FOROWN	0.016	0.070	0.014	0.233	0.816
INDAUD	0.015	0.045	0.018	0.333	0.739
SIZE	-0.033	0.016	-0.126	-2.073	0.039
LEV	0.138	0.046	0.159	2.974	0.003
GROWTH	-0.030	0.063	-0.025	-0.481	0.631
F-Stat = 2.475; (p-value = 0.013), R^2 =0.521, Adj. R^2 = 0.312; D-W = 1.911					

As can be seen in Tabel 3, the three proposed hypotheses are not supported except the first hypothesis. Inetitutional ownership is found to have a positive and significant effect on the expetnt of management opportunistic behavior. Foreign ownership and the existent of independent auditor do not have significant effect on the dependent varibale. Two controls varables are found to have a significant effect on the management opportunistic behavior.

4.1 Effect of Institutional Ownership on Management Opportunism

Based on the result of the research, the institutional ownership variable negatively affects management opportunism, so H_1 stated that institutional ownership negatively affects management opportunism action is accepted. The results of this study are not in line with Siregar and Utama (2006) who state that the proportion of institutional ownership has a positive but insignificant effect on earnings management. In addition, the results of the study also contradict Nuraini and Zain (2007), which conclude that institutional ownership negatively and significantly impacts opportunistic earnings management actions.But this result inline with Chung (2002) that find that the presence of large institutional shareholdings inhibit managers from increasing or decreasing reported profits towards the managers' desired level or range of profits. The evidence is consistent with institutional investors monitoring and constraining the self-serving behavior of corporate managers.Investment institutions with substantial shareholdings in a firm have the

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resources and incentives to monitor and influence management decisions. The institutions actually monitor and exert pressure on managers.

4.2The Effect of Foreign Ownership on Management Opportunism

Based on the result of the research, foreign ownership variable has no effect on management opportunism act, so that H2 stated that foreign ownership negatively affect earnings management is rejected. In this study, the effect of foreign ownership on earnings management is not clearly captured by the possibility of many sample companies in the manufacturing industry in Indonesia alleged to have foreign ownership percentage of the name of the company in the words of Ltd. (Limited), Intl (International), and Pte, but was not purely owned by foreign investors, but owned by domestic investors. In addition, the average of foreign ownership in the sample company is still low, ie 37.55%. These results are in line with the results of the study

4.3The Effect of Auditor Independence Against Management Opportunism

Based on the results of the study, audit quality variables proxied with the independence of the auditorproved not to affect the company's earnings management, so H3 which states that the independence of auditors negatively affect earnings management is rejected. This study is inconsistent with the results of previous research conducted by Meutia (2004), which states that the independence of auditors can be one factor in detecting earnings management.

But this study supports the results of research Welvin and Herawaty (2010) which concluded that the independence of auditors does not affect the opportunistic action of earnings management. In this study, it can be seen from the mean value in the descriptive statitistik that 68% of the research sample companies have used different KAP services after three years. However, the influence between the auditor's independence to earnings management that is not visible is likely due to the auditor who has not been able to detect the occurrence of opportunistic management actions through the audit process of the company's financial statements.

4.4The Effect of Firm Size Against Management Opportunism

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Several reasons exist to prove a negative relation between firm size and earnings management as explained by (Ahmad et al 2014 and Kim et al 2003), Large-sized firms may have stronger internal control system and may have more competent internal auditors as compared to small-sized firms. Based on the result of research, firm size variable have negative and significant effect to earnings management. The result of this research does not support Welvin and Herawaty (2010) whoconcluded that firm size does not affect earnings management oportunism.

However, the results of this study support the research of Siregar and Utama (2006) and Nuryaman (2008) which states that firm size has a negative and significant effect on earnings management. In this study the size of the company viewed from the total assets owned by the company, so it is considered that large companies are relatively more stable in its operational activities. In addition, large corporations that are already known to the public would be more careful in presenting their financial statements accurately, so the incentive to take profit opportunistic management actions is also less than small-sized companies.

4.6The effect of Leverage on Management Opportunism

Based on the result of research, leverage variable have positive and significant effect to profitability opportunistic acts. The results of this study support the research of Tarjo (2008) which resulted in the conclusion that leverage has a positive and significant impact on earnings management, and is consistent with the results of Herawaty (2010) study which states that if leverage has significant effect to earnings management. The results of this study are in accordance with the theory of debt covenant hypothesis that dikemukanan by Scott (2015), where a company close to the maturity of debt loans will tend to shift future earnings period to the current period. In this case earnings management is intentionally done to create a good corporate image in the eyes of creditors related to the ability to pay the debt.

4.7The Effect of Growth Against Management Opportunism

Based on the results of research, growth variable does not affect the opportunistic action of earnings management, so H8 which states that the positive effect of earnings on earnings management is rejected. Measurement of growth in this study is done by revenue year now deducted by revenue years before then

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divided by revenue years before. Based on descriptive statistics, the average sample company only has a growth of 9.8%, therefore the relationship between growth variables and profitability opportunistic actions can not be proven significantly.

5. CONCLUSIONS AND SUGGESTION

This study contains a model to examine the effects of ownership structure (managerial ownership, institutional ownership, foreign ownership) and firm characteristics (audit quality, auditor independence, firm size, leverage, and growth) to earnings management. Results of test generate the following conclusion. Institutional ownership negatively affects the opportunistic behavior of management meaning the greater the institutional ownership of a company will be able to suppress the opportunistic attitude of management. Foreign ownership and auditor independence do not have no significant effect on earnings management opportunism. The size of the firm has a negative and significant effect on the opportunistic action of earnings management. Leverage has a positive and significant effect on management opportunism.Growth has no significant effect on management opportunism.

There are some limitations that may have an effect on the research results. The limitations are as follows. First, the number of companies used as research samples from only one industry, namely manufacturing industry. Therefore the results cannot cover the entire industry for public companies listed on the Indonesia Stock Exchange. Future research is expected to take samples from several industries to be incorporated into the profit management measurement model so as to obtain more accurate results and from the characteristics of each different industry can identify the differences in the pattern of opportunistic management actions in each industry. Second, the study period to look at earnings management practice is only four years, so the observation of earnings management practices undertaken by a company is less describes the actual situation. For further research can add a longer period of time for more research results can describe the overall state of the company go public in Indonesia. Thirsd, the independent variables and control variables used in this study only explain 3% of the variation of dependent variables, the rest there are many other variables that are not included in

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this research model. There are still many opportunities for future researchers to examine other independent variables that have influence on earnings management, such as good corporate governance, intellectual capital disclosure, corporate social responsibility, and so on. Fourth, measurement of management opportunism uses conditional revenue model only and does not take into account factors other than receivable, income, firm size, age, growth revenue, and gross margin. Subsequent research in addition to using conditional revenue models can also add other measures of profit management opportunism that take into account factors that managers can not control such as economic conditions, interest rates, and inflation. Thus can be seen the opportunism of management from two different viewpoints to then be compared together so that the results are more accurate.

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